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POLICY BRIEF

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Potential products and sectors for Uganda's export expansion

Executive Summary

The study identifies the potential sectors and products for export expansion using the Hausmann Atlas of Economic Complexity and the International Trade Centre's Export Potential Assessment approaches. Overall, the results suggest that Uganda has a comparative advantage for export expansion in the agricultural, minerals, light manufacturing and textile sectors yet exploiting only 62 percent of its potential export market. Thus to leverage the available opportunities, the government needs to; i) undertake efforts to enhance the competitiveness of Uganda's export products, primarily agricultural, mineral, light manufacturing and textile products, ii) build the productive, marketing and exporting capacities of current and prospective exporters to tap into the regional markets iii) provide adequate and timely information regarding the available export expansion opportunities in Uganda's key trading partners. iv) strengthen the existing institutional framework for export promotion.

Introduction

Uganda mainly exports agricultural commodities and mineral ores, which are destined to the regional markets. There have been efforts in the past to identify products for export in different national strategies and frameworks. The National Export Development Strategy 2015/16 – 2019/20[1] identifies 20 products to form the bulk of the priority products to promote exports (NPA, 2020)[2]. These comprise coffee, iron and steel products, fish and fish products, cement, tea, hides and skins, tobacco, sugar, cocoa, flowers, sesame seed, maize, plastic products, animal and vegetable oils and fats, rice, beans, soap, cotton and fruits and vegetables. The strategy further identifies the available/un-utilized market, which gives the market opportunities in the global market place currently served by other countries. The following products were thus identified: cement, coffee, fish and fish products, flowers, iron and steel, sugar, tea, and tobacco, cocoa, cotton, fruits and vegetables, hides and skins, maize, plastic products, rice, and sesame seeds and beans.

Against this background, this brief identifies products and sectors for export expansion to increase the country's exports. The brief is based on the study titled "Potential Products for Uganda's Export Expansion and diversification.''

Methodology and Data

The study adopted export potential assessment methodologies developed by the International Trade Centre (ITC) and the Harvard School of Kennedy (Atlas of economic complexity). The Hausmann, Hwang & Rodrik (2007)[3] concept of product space was also used to enhance product identification for expansion[4]. The study used data from different sources to analyze Trademap, Economic Atlas, and International Trade Centre.

Results

On average, Uganda exploits only 62 percent of its potential export market, suggesting a 38 percent unutilized export market that needs to be tapped into. More specifically, products like cured fish, cane or beet sugar, beans, raw cane sugar, black tea, low-fat milk, crude sunflower, hides and skins, millet, and legumes only exploit less than 50 percent of the available market potential. On the other hand, coffee, palm oil, fish fillet, cotton, flat-rolled steel, vanilla, plywood are exploiting more than 70 percent of their market potential. Therefore, Uganda can increase its export revenue by striving to increase its exports beyond the current proportions. Figure 1 provides the performance of Uganda's actual exports for the top 26 export products.

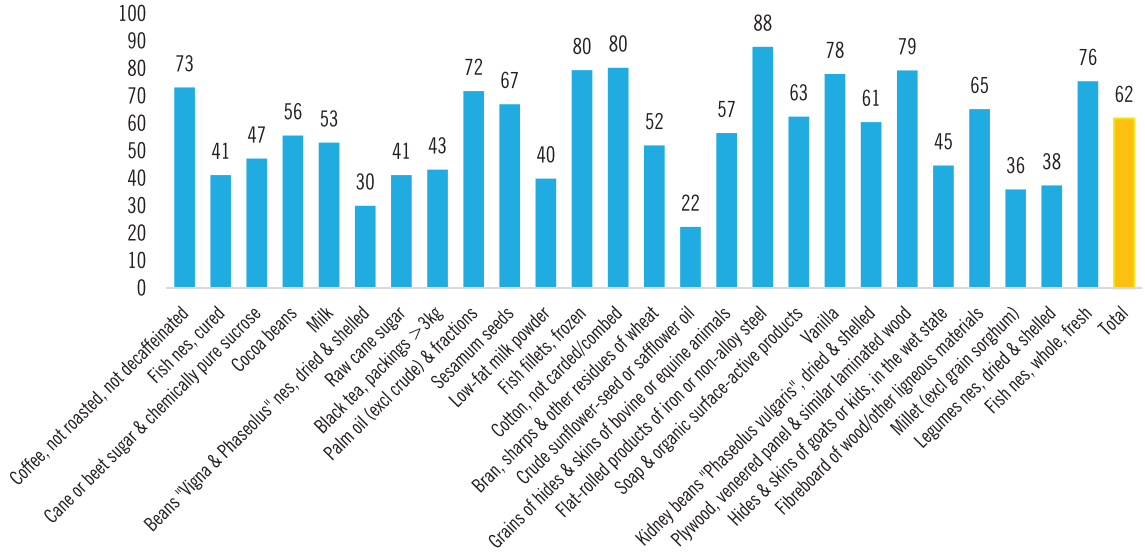
Furthermore, Figure 2 below shows the export potential, actual exports and untapped potential for Uganda's top 26 products in value terms. For example, on average, over the past five years, coffee's export potential was US$ 673 million, but actual exports were about US$ 492 million.

This implies that Uganda has an untapped potential of about US$ 220 million for coffee exports. It emerges that the top 26 products' untapped potential is worth about US$ 1 billion.

At the sectoral level, the agriculture sector earns Uganda the highest value of export revenue. It has the highest Revealed Comparative Advantage (RCA), largely above 0.7 in comparison to chemicals, metals, minerals, stones and textiles (Table 1)[5]. However, like the rest of the sectors, the country's share of the given products is minimal globally. This implies that an increase in the exports of these specific products may not make a significant change at the international level. The rest of the world can still absorb a substantial amount of exports from Uganda with no difficulty. This arises from the fact that Uganda is a small economy with a dismal impact on global production.

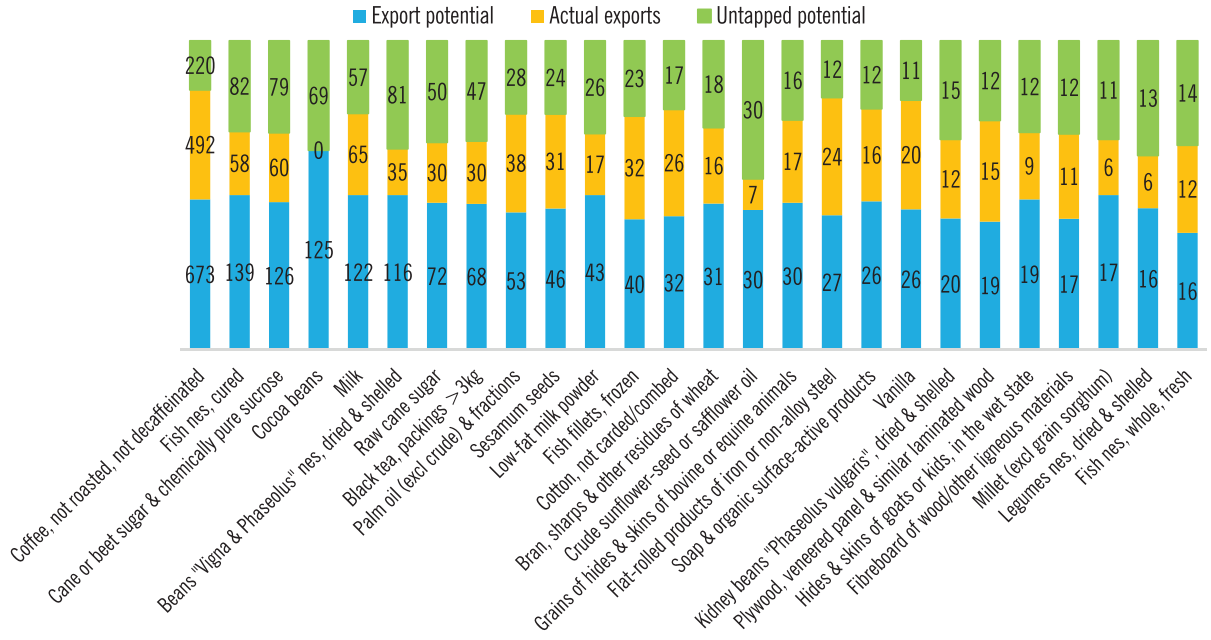
Notwithstanding, this provides the country with a significant share of the global market. Tapping into the current export potential would

Figure 1 Performance of Uganda's top export products (%)



Data source: International Trade Centre's Export Potential Map (2021)

Figure 2 Figure 3: Potential for Uganda's products US$ millions



Data source: International Trade Centre's Export Potential Map (2021)

Table 1 Sector performance according to the Revealed Comparative Advantage indicatoraa

	2015	2016	2017	2018	Average
Agriculture	0.14	0.17	0.14	0.13	0.15
Chemicals	0.11	0.08	0.07	0.07	0.08
Electronics	0.09	0.08	0.06	0.07	0.08
Machinery	0.09	0.08	0.07	0.07	0.08
Metals	0.08	0.11	0.07	0.08	0.09
Minerals	0.13	0.08	0.08	0.04	0.08
Stone	0.06	0.08	0.09	0.07	0.08
Textiles	0.09	0.09	0.07	0.05	0.08
Vehicles	0.11	0.19	0.14	0.14	0.14

Data source: Authors' computation using Atlas of Economic Complexity

mean that Uganda has to look at the existing export destinations. The current export market destinations are primarily the East African Community Partner States, the Common Market for Eastern and Southern Africa Member States, the European Union, and few Asian and Middle East countries.

Conclusion and Policy Recommendations

The study identifies the sectors and products for export expansion. It thus provides the potential sectors and products that Uganda can leverage in developing its National Export Development Strategy. Uganda has a comparative advantage intensifying its exports in the agricultural, minerals, light manufacturing and textile sectors. In addition, Uganda is exploiting only 62 percent of its potential export market, suggesting a 38 percent unutilized export market that needs to be tapped into. Whereas the African market destination mainly constitutes export trade in light manufacturing and significantly agro-processed products, the Americas, Europe and Asia essentially include commodities and agro-processed products. Therefore, we conclude that Uganda depends more on the African continent for manufactured products export than the rest of the continents that import Uganda's commodities for value addition.

The following policy implications emerge from the study:

1. There is a need to enhance the competitiveness of Uganda's export products that are predominantly agricultural, mineral, light manufacturing and textile products, which have a high potential for export expansion. In light of this, Uganda should:
    i. Build competitiveness by significantly reducing the costs of production and operation. This can be achieved by undertaking initiatives such as improving the infrastructure (energy, transport and e-commerce) and addressing institutional inefficiencies (bureaucracy and corruption) to reduce trading costs.
    ii. Leverage regional integration to reduce and eliminate high tariff rates with countries not part of the EAC and COMESA to increase product competitiveness.
    iii. Endeavour to develop and improve its product standards to ensure more enhanced market penetration in the EU, Middle East and Asian markets.
2. Both private and public sectors should address supply-side constraints that impede and limit the production capacities of Uganda's enterprises to tap into the available export opportunities. These include capacities to produce, market and export products.
3. Relevant government agencies should provide adequate and timely information to enable exporters to exploit the available export expansion opportunities. The role of the Uganda Export Promotion Board, the AGO unit and Commercial Attaches in foreign missions, among others, is critical
4. Lastly, tapping into export markets also requires strengthening the existing export promotion institutional framework including actors such as the Ministry of Trade, Industry and Cooperatives, National Planning Authority, the Uganda Export Promotion Board and Uganda Investment Authority to ensure that key stakeholders are well aligned and coordinated to provide strategic guidance to both domestic and foreign investors.

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Endnotes

1 Ministry of Trade Industry and Cooperatives (2015). National Export Development Strategy 2015/16 – 2019/20, Republic of Uganda
2 National Planning Authority (2020). National Development Plan III, 2020/21 – 2014/25, NPA, Republic of Uganda
3 Hausmann, Hwang & Rodrik (2007). What you export matters, Journal of Economic Growth, 12(1): 1-25 (Cambridge, National Bureau of Economic Research).
4 The Product Space is a network representation of the relatedness or proximity between products traded in the global market.
5 Revealed comparative advantage ranges between zero and one, where values close to zero indicate a lower RCA and values close to 1 have a higher RCA.

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